

Target Statutory Financial Examination of
UNIFIED LIFE INSURANCE COMPANY

FE 14-04

as of December 31, 2013

Issued by
STATE OF ALASKA
DEPARTMENT OF COMMERCE, COMMUNITY AND
ECONOMIC DEVELOPMENT
DIVISION OF INSURANCE

NAIC Company Code: 11121
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FINAL REPORT:
April 10, 2015

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April 17, 2015

Lori Wing-Heier, Director
Division of Insurance
Department of Commerce, Community
and Economic Development
State of Alaska
9th Floor State Office Building
333 Willoughby Ave.
Juneau, AK 99801

Dear Director Wing-Heier:

In accordance with your instructions and authorizations, and in accordance with statutory requirements, Risk & Regulatory Consulting, LLC (RRC) assisted the Division of Insurance in conducting a target examination has been made of the business affairs of:

UNIFIED LIFE INSURANCE COMPANY
(NAIC # 11121)
7201 West 29th #300
Overland Park, Kansas 66213

BACKGROUND AND DESCRIPTION OF COMPANY

Pursuant to the Stipulated Agreement and Order Case No. D 13-12, dated August 23, 2013, and the authority granted by Alaska Statute (AS) 21.06.120(a), the Alaska Division of Insurance (Division) called an examination of Unified Life Insurance Company (Unified), which targeted its Apollo MT Program (Apollo Program or Program) and the records maintained of the Apollo Program, including those maintained by J Allan Hall & Associates (Hall), Apollo MT, LLC (Apollo) and any other entity associated with the Apollo Program as well as any other business transacted by Apollo. The target examination commenced on March 4, 2014 and covered the period of January 1, 2008 through December 31, 2013, with analyses of certain operations of Unified being conducted through March 2, 2015. A market conduct examination was conducted concurrently and is the subject of a separate examination report.

The purpose of this examination report (Report) is to report on the results of the target financial examination procedures performed and any related findings.

SCOPE OF EXAMINATION

Risk & Regulatory Consulting, LLC (the Examiner) was engaged to assist the Division in performing a review and analysis of Apollo, a licensed producer, as well as the insurer of the Apollo Program, Unified, and Unified's third party program administrator (TPA), Hall. The scope of the engagement included assessing the relationship between the above noted entities. The financial examination procedures performed are described below.

For the target financial review, the Examiner obtained and reviewed the following information:

From Hall, as the TPA:

- Monthly Premium Reports
- Monthly Claim Reports
- Premium/Claim Accounts per General Ledger
- Bank Account Reconciliations
- Monthly Reinsurance Reports
- Agreements with Apollo and Unified
- Commissions Payable
- Fidelity Bond

From Unified, as the Program Insurer:

- Administration Agreement with Hall
- Premium Bordereau
- Cash and Claim Reconciliations
- Fidelity Bond
- Working Financial Reports
- General Agent Agreement
- Quota Share Reinsurance Agreements

In addition to the above records, the relevant laws were obtained from the Division. The Examiner met with representatives of Apollo, Hall and Unified management via conference calls and in person with Hall management to discuss operations and documentation provided. The following persons were interviewed to obtain an understanding of the relationship among the parties:

- Eric Sterling – Apollo
- J Allan Hall, -- Hall
- Kevin Dill – Unified

The Examiner periodically met with various members of the Division to provide the status of the examination and to obtain further instructions, as needed. The procedures performed were as follows:

- Interviewed all parties to determine the role of each entity
- Reviewed operations and management
- Reviewed reinsurance contracts to determine transfer of risk, terms, tracking and monitoring and review reinsurance transactions
- Reviewed that contracts are administered or executed in accordance with their provisions
- Reviewed claim payments to ensure they are paid according to scheduled benefits, policy provisions and provider contracts
- Reviewed processes in place to monitor activities of Hall and Apollo as well as reinsurers
- Reviewed audits, if any, performed by Unified of Apollo transactions and whether Unified addressed issues identified in the audit
- Reviewed whether financial reporting is accurate and complete by and between all entities - premiums, claims and commissions
- Reviewed agent and TPA agreement to conclude that the parties are operating in compliance with the Agreement.
- Reviewed that the information reported to the OID and to the NAIC is accurate and complete.
- Reviewed fees and commissions paid to Hall and Apollo

Review of Agreements

Administration Agreement

Effective March 1, 2009, Hall (TPA), and Unified (Insurer) entered into an Administration Agreement (the Agreement).

Under the terms of the Agreement, Unified appointed Hall to perform procedures in accordance with guidelines and procedures approved by Unified, noting any changes to be sent to Unified in writing. Hall served as the administrative service provider for individual and group policies issued or renewed by Unified under the Apollo MT program. The policies were issued on Unified policy forms at rates established by Unified.

Hall is responsible to reconcile premium deposited by Apollo.

Hall processes and pays all valid claims, including expenses arising under these policies, subject to supervision provided by Unified. Hall reports to Unified all paid claims by covered person.

Hall also agreed to establish rules and procedures as it deemed proper to administer the policies, with Unified's approval. Hall is required to furnish to Unified the statistical data regarding services provided or requested by Unified. Hall prepares reports and remits

funds in accordance with Unified's reinsurance contracts and provides copies to Unified. Unified provides Hall with copies of the contracts.

Hall prepares all reports for certifications required to be filed, including but not limited to the annual actuarial certification and various statistical reports.

General Agency Agreement

Effective March 1, 2009 Hall, Unified and Apollo MT (Agency) entered into an exclusive general agent agreement. The purpose of the agreement is to set forth conditions which the Agency perform certain Agency services as noted below.

The Agency shall:

- maintain all licenses that are required to perform its duties
- recruit qualified agents to solicit applications. The Insurer will approve the agents
- deliver policy termination notices to the policyholder
- be responsible for collecting premium from the policyholder promptly after the sale
- act as a fiduciary with respect to its duties & agrees to maintain confidentiality of the Insurer

Fidelity Bond & Liability Insurance

Hall as required holds a fidelity bond with limits of \$1 million per occurrence, covering all employees of the Administrator. The Administrator, as required, maintains a Professional and General Liability policy of not less than \$1 million per occurrence in any one year.

SUMMARY OF EXAMINATION FINDINGS

Based upon review of the Administration Agreement and discussions with Hall representatives, it does not appear that Hall performs the oversight functions of the Apollo Program as contemplated in the Agreement. Hall, as the TPA, acts on information received from Apollo. As noted above, Hall collects premiums and pays claims in accordance with the Agreement. While there were no findings relative to the processes and procedures performed by Hall, if Hall is to have oversight of the Apollo Program, it is recommended that the parties involved clarify the oversight responsibilities of the parties, or modify the Agreement to reflect those processes and procedures that Hall performs. Currently, Hall processes premiums and claim payments with respect to the Apollo Program; however, the Agreement also states that Hall is to establish oversight procedures. Oversight procedures were not noted to be in place during the examination period, and as such, the parties are not in compliance with the requirements of the Agreement.

The financial review noted no inconsistencies with information provided to or from Apollo or Unified by Hall. In regards to the financial review, the following agreements were reviewed and no findings were noted, other than as noted above:

- Administrative Agreement
- Exclusive General Agent Agreement
- Reinsurance Agreements

Unified entered into a reinsurance contract with Southpoint 8 Insurance Company (Southpoint 8) and QBE Reinsurance Corporation (QBE) from March 1, 2010 to February 28, 2011; it was renewed for the period March 1, 2011 to February 28, 2012 and again for the period March 1, 2012 to February 28, 2013. On February 28, 2013, the contract with QBE was terminated in accordance with runoff provisions of the contract.

The reinsurance agreements included the appropriate contract language to affect risk transfer, and other requirements relating to items such as financial solvency and evergreen clauses, among others.

The Division identified one issue regarding two claim payments and requested the Examiner investigate the matter. In discussion with the three parties (Unified, Hall and Apollo), there was one disbursement involving two policyholder claims that was paid directly to the provider by Apollo's affiliated reinsurer, Southpoint 8, rather than by Unified. From discussion and correspondence with Unified and Hall, it was confirmed that neither Unified nor Hall was aware of these payments. Accordingly, the Examiner is unable to conclude that the financial records maintained by Unified of the Apollo Program are accurate and complete. This finding provides further support to the finding noted above that Unified failed to provide adequate oversight of the Apollo Program.

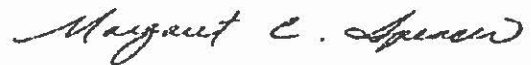
CLOSING

This examination was conducted in accordance with practices and procedures promulgated by the NAIC to the extent applicable to a target examination.

In addition to the undersigned, the following examiners participated in the examination: Katie Campbell, FSA, MAAA, Life/Health Actuary, Alaska Division of Insurance; Connie Moody, CFE, Risk & Regulatory Consulting, LLC; Sarah Bailey, AIE, Insurance Specialist II, Alaska Division of Insurance; and Jacob Lauten, Insurance Specialist I, Alaska Division of Insurance.

We wish to express our appreciation for the cooperation and assistance extended to us by the management and staff of Unified, Hall and Apollo during the course of the examination.

This report is respectfully submitted,



Margaret C. Spencer
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Risk & Regulatory Consulting, LLC

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